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SUBJECT: Argentina and Brazil Pledge Increased Cooperation

Reftel: (A) Buenos Aires 1279
(B) Buenos Aires 1277
(C) Buenos Aires 1116
(D) Buenos Aires 230

Summary

¶1. (SBU) Argentine President Cristina Fernandez de Kirchner (CFK) and Brazilian President Luiz Inacio Lula Da Silva (Lula) pledged increased cooperation and agreed on a number of economic and infrastructure deals during a September 6-8 CFK state visit to Brazil. The fact that the summit constituted CFK's first state visit of her presidency and was timed to coincide with Brazil's 186th national day celebrations underscored the value that CFK places on Argentina's relationship with Brazil. The most important agreements signed and issues covered included: plans to replace the U.S. dollar with local currencies in their bilateral trade; a pledge to work together on global trade talks; discussion of digital TV standards; further nuclear cooperation; creation of a joint infrastructure investment fund by the nation's development banks; increased military cooperation; the consideration to locate a Brazil state-owned aircraft Embraer plant in Argentina, along with the possible purchase of Embraer planes by Aerolineas Argentinas; and increased electricity, gas, and rail interconnections. CFK also inaugurated a wind energy production plant built by an Argentine multinational. While most of these agreements are merely formal expressions of support for plans already in development, the summit underscored the close ties between these allies, Mercosur's two biggest members. END SUMMARY.

Broad areas of cooperation

¶2. (SBU) Argentine President Cristina Fernandez de Kirchner (CFK) and Brazilian President Luiz Inacio Lula Da Silva (Lula) pledged increased bilateral cooperation and agreed on a number of economic and infrastructure deals during a September 6-8 CFK state visit to Brazil. According to a joint press release, the "meetings also allowed the presidents to advance the Argentina-Brazil Integration and Coordination Mechanism (the first was held in Buenos Aires in February 2008 - ref D), and to review the broad spectrum of the bilateral relationship."

¶3. (SBU) CFK was accompanied by senior GOA officials, including Foreign Minister Jorge Taiana, Defense Minister Nilda Garre, Economy Minister Carlos Fernandez, Planning Minister Julio De Vido, and

Buenos Aires Provincial Governor Daniel Scioli. The GOB side was similarly represented.

14. (SBU) The summit produced a 17-page "Joint Declaration" that lists areas of current and potential cooperation. The Declaration established four subcommittees to further expand cooperation: macro-economic coordination and S&T; energy, transportation, and infrastructure; defense and security; and health, education, social development, culture, and movement of people. Among the Declaration's highlights, the two sides reiterated their promise to deepen Mercosur, "the principal path for regional integration for both nations from the political, social and economic-commercial point of view," and highlighted the "fundamental" importance of addressing Mercosur member nations' imposition of secondary internal tariffs above and beyond the bloc's common external tariff. The declaration hailed the full implementation of Mercosur's Structural Fund for Convergence (which compensates Uruguay and Paraguay for investments lost to predominant members Argentina and Brazil) for its "great importance in correcting asymmetries" between member states, and reiterated their promise to facilitate a system of financial guarantees as a first step towards the establishment of a Mercosur fund to assist small and medium-sized firms. The Declaration "reiterated Argentina and Brazil's disposition "to continue extra-regional negotiations" and move forward on long stalled Mercosur-EU FTA talks, as well as to "deepen South-South trade negotiations." Finally, the Declaration established the date of the Third Bilateral Integration and Coordination meeting for April 23, 2009, in Buenos Aires.

First CFK state visit underscores strong GOA-GOB ties

15. (SBU) This was CFK's first state visit of her presidency, and was timed to coincide with Brazil's 186th national day celebrations. It also reciprocated a state visit by President Lula to Argentina earlier in the year (ref D). Her visit included meetings with President Lula, congressional and Supreme Court representatives, and business leaders. According to a GOB press announcement, CFK made a "state visit to Brazil to participate as the guest of honor of the National Day commemorations."

16. (SBU) According to a high-level Argentine MFA official, the GOA was very pleased with the visit and, while acknowledging that most if not all of the agreements formalized initiatives already in various stages of development, the visit represented an important milestone and agenda-setter for CFK's presidency, strengthening what is for Argentina its most important bilateral relationship. According to an May 2008 State Department INR poll about which bilateral relationship is the most important to Argentines, Brazil was by far the number-one choice, at 58%, followed by Venezuela at 27%, and the United States at 23%. In a similar poll that gauged regional leaders' appeal, Lula had the highest positive approval ratings at 64%, followed by Bolivian President Morales at 50%, and Chile's Michelle Bachelet at 45% (POTUS was at 4%). All new Argentine Foreign Service Officers are required to learn Portuguese, as well as English, and the Brazilian DCM told us recently that he conducts many of his meetings at the Foreign Ministry in Portuguese.

Replacing trade in dollars for local currency

17. (SBU) Lula and CFK reiterated their support for an earlier announced plan to replace the U.S. dollar with local currencies (Argentine peso and Brazilian real) in settling their bilateral trade accounts (ref C). The Declaration noted "satisfaction" with the recent agreement between the Argentine and Brazilian central banks to implement this system, and that it will come into force in "as short a time as possible." GOA and GOB officials stated that the move could significantly reduce financial costs and red tape on bilateral trade, which will reach \$30 billion in 2008 (with an estimated \$5 billion Brazilian surplus). It remains unclear when this plan will come into operation: the GOA and GOB central banks announced in June that they would implement this payment system in September 2008. The plan calls for a unified "reference" exchange rate between the real and peso, as a way to "deepen regional

integration and increase the exchange of goods." In June 2008, Brazilian Finance Minister Guido Mantega said it would reduce transaction costs and benefit small- and medium-size businesses, and that "in the long run it's a path to a common currency." The first stage of the plan includes only Brazil and Argentina, but could be expanded to include Uruguay and Paraguay. Venezuela has also expressed interest in this initiative.

Coordinating WTO positions

18. (SBU) The declaration called for each country's international trade negotiating groups to "maintain permanent contacts and hold periodic meetings to consult and coordinate positions on the issues included in the WTO agenda and evaluation of international trade with the objective of a common position." Local analysts believe that the collapse of the WTO Doha Development Round talks and end-game disagreements in Geneva between the GOA and GOB over appropriate industrial tariff cuts have prompted Mercosur to seek a common front as it pursues trade deals elsewhere, particularly with the European Union. (Mercosur-EU FTA talks had stalled during extended Doha round negotiations.) "It is fundamental that Mercosur speak with a single voice in the world," President Lula said during a luncheon in honor of CFK.

Synchronizing digital TV standards

19. (SBU) The declaration called for the GOA Ministry of Planning and GOB Ministry of Communications "to hold regular meetings with the objective of exchanging technical and institutional information and exploring the mutually advantageous opportunities of a partnership for both countries in the issues of investment, equipment production, strengthening of the production integration, technological development, promotion of research and cooperation in the field of developing software, among other possibilities associated with digital TV." Although the local media has portrayed this chapter as a possible prelude to GOA formally accepting Brazil's modified Japanese DTV standard, there have been no formal GOA declarations to this effect. (Ref C details recent developments in the competition between U.S.-, European- and Japanese-led groups to have Argentina adopt their DTV standard as well as Embassy advocacy efforts.)

Expanding nuclear cooperation

110. (SBU) The two sides expressed their satisfaction with the GOA-GOB March 2008 bilateral Nuclear Energy Commission (COBEN), and for the May 2008 Binational Seminar on Nuclear Cooperation. They expressed their intention to create a joint state company (EBEN) that will develop compact nuclear reactors and perform uranium enrichment. They instructed each side's relevant authorities to identify possible areas of financing that will permit the quick implementation of specific joint projects, and set the next COBEN meeting for October 22 in Buenos Aires.

Development bank cooperation

111. (SBU) Both sides agreed to create an investment fund to finance joint infrastructure projects. The two sides signed an agreement for Brazil's National Bank for Economic and Social Development (BNDES), Argentina's (state-owned) National Bank (Banco de la Nacion), and Argentina's state-owned mezzanine financing Bank of Investment and Foreign Trade (BICE) to create a fund to finance up to \$30 billion in infrastructure projects and bilateral trade, and to "work on new viable economic projects of strategic interest of both governments."

Military ties

¶12. (SBU) In the area of "Defense and Security," the Declaration highlighted the "Joint Defense Working Group" that has identified 16 projects related to Army, Navy and Air Force cooperation. These include cooperation and information exchange on naval gas turbines motor overhaul, sonar repairs, terminal missile homing systems, diesel motor maintenance, submarine repair, the development of a multipurpose naval patrol vessel, amphibious vehicle modernization, and radar modernization. The Declaration also noted their intention to continue joint development of a lightweight military vehicle ("Gaucho") whose full production could begin next year.

¶13. (SBU) Mil Group Comment: For the GOA Armed Forces and MOD, this agreement appears to advance their objectives of maintaining and modernizing their existing military systems and improving logistics efficiency. The plan to cooperate on sonar operations speaks to the GOA Navy's relatively stronger technical and operational experience in Argentina's shallower ports. Overall, it appears Argentina is offering its technical expertise in the hopes of gaining access to Brazil's financial resources to repair and update their current systems. End MilGroup comment.

Possible EMBRAER aircraft production and sales

¶14. (SBU) The declaration also noted the two sides' intention to discuss the possibility that Brazilian aircraft and components be produced in Argentina. Although the declaration did not name Brazilian aircraft manufacturer Embraer by name, the agreement appeared to confirm earlier press reports that the GoA is interested in having Brazilian aircraft manufacturer Embraer set up an assembly plant in Argentina. According to these same press reports, recently renationalized flag carrier Aerolineas Argentinas (Ref B) could buy up to 26 Embraer-190 narrow-body, twin-engine, medium-range airliners.

¶15. (SBU) Comment: The possibility that Embraer could set up a production facility in Argentina is also consistent with Embassy Buenos Aires Milgroup's view that the GOA MOD would like to turn its current aircraft facilities in Cordoba, now managed by Lockheed Martin, into a regional center which would, among other things, build and maintain both military and civilian airframes (the latter for Aerolineas Argentinas). For this to be possible, the GOA MOD knows that it needs an outside investor, with a business plan and regional market. Embraer has long been the leading candidate, and Milgroup understands that the MOD has approached the Brazilian firm in the past about this prospect. End comment.

Developing energy infrastructure projects

¶16. (SBU) The two sides pledged to work together on joint energy infrastructure projects, including accelerating development of the long planned binational hydro-electric project on the Uruguay River. The accord stipulates that the two will hold a bidding process within 24 months for their first joint hydroelectric plant, to be located in the city of Garabi, along their shared border on the Uruguay River. The \$2 billion plant will have a two GW electricity generation capacity. President Lula also invited Argentina to help build part of the infrastructure Brazil needs to develop massive offshore oil and gas discoveries it made last year.

Increased electricity, gas, and rail connections

¶17. (SBU) The GOA and GOB pledged to investigate the possibility of "increasing and expanding" their electricity and gas connections already in existence. The Declaration called for continued discussions to develop a plan for a possible Brazil-Argentina-Paraguay-Chile transoceanic rail, to run from Paranagua, Brazil, to Antofagasta, Chile. (This proposed rail link has been raised in previous bilateral and regional discussions.) It also called for greater rail links between the Argentina and Brazil.

Inauguration of wind energy plant

¶18. (SBU) In a separate trip to the northern Brazilian city of Recife, CFK inaugurated what was reported to be the first wind energy production plant in northeast Brazil, built by Argentina's Pescarmona Group, Impsa Wind. The \$79 million plant will assemble wind generators from components manufactured in Argentina for the Brazilian and regional markets. The company will directly generate 300 jobs in Brazil and is part of an announced four-year, \$1.5 billion regional investment project expected to create as many as 24,000 direct and indirect jobs in Mercosur countries.

Other areas of cooperation

¶19. (SBU) The Declaration also called for future discussions related to: economic policy coordination, bilateral trade and integration, the development of an Argentine-Brazilian satellite for ocean observation, nanotechnology cooperation, renewable energy, new bridges on the Uruguay river, joint river boat production for use on the Parana River border, agreements on civil and political rights and harmonizing the laws of both countries to achieve this goal, free circulation of people, and closer cooperation and standardization in the areas of health care and medical standards.

Comment

¶20. (SBU) Although these agreements - or announcements of ongoing and future cooperation - may appear at first glance to lack substance or hard commitments, their breadth and scope underline the very close relationship the two nations enjoy. The agreements also allowed both governments to signal publicly their close relationship and close cooperation. The GoA's message in the way it approached this visit was clear: Brazil represents Argentina's most important, strategic ally in all its foreign policy priority areas -- trade, investment, energy, scientific and military cooperation.

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